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1 May 1979

MEMORANDUM FOR: Director of Economic Research  
FROM: Director of Central Intelligence  
SUBJECT: Possible Israel Economic Problems

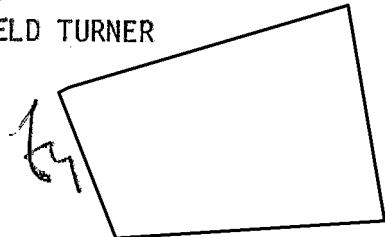
The attached article by Daniel Pipes alleges that Israel has some immediate economic difficulties. I'm not really aware of these and would appreciate any comments you have to offer.

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Attachment



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# OPINION AN

THE CHRISTIAN SCIENCE MONITOR

## Camp David: farseeing dip

### The key to lasting peace

By Daniel Pipes

Analyses of the prospects for lasting peace between Egypt and Israel tend to concentrate too much on the possibility of its undoing by other Arabs (Palestinians, the Eastern front, Saudi Arabs) and too little on the disruptive factors within Egypt and Israel themselves.

The other Arabs are not so strong for these reasons:

- The Palestinians on their own carry no weight. Few in numbers, outgunned, internally fractured, limited in resources, and scattered geographically, they depend entirely on support from Arab governments.

Without this support, Palestinian organizations would have no established bases, few weapons, and minimal political importance. They are at the mercy of the Arab governments (even in Lebanon, where it is the Syrian Government) and have little significance on their own. Consequently, the Palestinians matter less as an independent force than as an expression of the will of Arab governments.

The notion that there can be no peace in the Middle East without settlement of the Palestinian problem ignores the fact that the Arab governments can settle that problem anytime they wish simply by withdrawing support (as Egypt has recently done).

- The Eastern Front (Syria, Jordan, and whatever such countries as Iraq or Iran add) has little military potential without Egypt fighting too.

Since 1948, Egypt has provided the Arabs with their largest and most powerful army, and its military involvement forced Israel to fight a two-front war. With Egypt pulling out as an active participant, the Eastern front stands alone.

From all evidence, it appears unlikely that any combination of forces along this front can challenge Israel. If true, then Egypt's withdrawal from warfare implies that the other Arab countries, unable to confront Israel, will eventually have to come to terms with it. With time, Syria and Jordan will accept military realities and will follow Egypt's example in making peace in return for regaining lost territories.

- Saudi Arabian influence is less than it appears to be. While the Saudis may perceive their money as a lure, they cannot freely cut funds off when displeased. Their payments

to Arab governments and to Palestinian organizations serve as hostage money; these protect the vulnerable Saudi Arabians from sabotage and disruption. Such payments are necessary to buy good will and to leave the rich but weak Arabians in peace. The billions of dollars granted to Egypt will, therefore most likely continue, regardless of Sadat's policies. Saudi Arabia, for all its money, lacks the military and political power to use its wealth as a weapon.

Turning now to problems within Egypt and Israel, these are primarily economic:

For Egyptians, peace implies an improved standard of living. Economic pressures more than anything else sent Sadat to Jerusalem in November, 1977; the Egyptians have suffered from 30 years of unrecovered military expenses and are desperately looking for improvements.

Should peace not bring economic benefits, the Egyptians may become impatient. This could lead to political disruption, instability, a coup d'etat, and a return to radical politics, including the resumption of hostilities against Israel.

Israel faces sharp short-term economic difficulties, too, for it will be going through a complete economic transformation. Measures taken since 1977 to establish a free market in Israel have damaged its already fragile finances; if peace comes, then Israel will also have to reduce its military complex and convert to a peace economy.

This double transition will strengthen Israel in the long run, but it intensifies current problems. This situation demoralizes Israelis; it even makes some wonder if they can afford peace. Thus, Israeli economic problems could deflect its pursuit of peace.

Together, these arguments point to Arab ineffectiveness and the importance of the United States. Israel's enemies will not prevent Egypt from making peace. Yet, since both Egypt and Israel are experiencing ominous economic difficulties, the US has a leading role to play. By making large sums available to these two countries, it can greatly facilitate the way to peace. Although the amounts involved are large (perhaps \$20 billion over five years, maybe more), the US can make no better investment.

Dr. Pipes teaches Middle Eastern history at the University of Chicago.